CUMBERLAND COUNTY FISCAL COURT

AUDITED FINANCIAL STATEMENTS JUNE 30, 2006

JONES RITCHIE, PSC 2024 SHADYBROOK LANE, LEXINGTON, KY 40502 • (859) 269-1949

CERTIFIED PUBLIC ACCOUNTANTS

Cumberland County Tim Hicks, County Judge/Executive Fiscal Court Audit

For the Year Ended June 30, 2006

Jones & Ritchie, PSC has completed the audit of the Cumberland County Fiscal Court for the year ended June 30, 2006, and has issued an unqualified opinion on the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cumberland County, Kentucky. In accordance with OMB Circular A-133, we have issued an unqualified opinion on the compliance requirements applicable to Cumberland County's major federal program: Community Development Block Grant (CFDA 14.228.)

The financial statements of Cumberland County Hospital Association, Inc., a discretely presented component unit, have been prepared under accounting principles generally accepted in the United States of America, which is inconsistent with the basis of accounting Cumberland County, Kentucky, uses to prepare its financial statements. As a result, we have issued a qualified opinion on the discretely presented component unit.

Financial Condition:

The County had net assets of \$1,867,205, which included \$180,914 of unrestricted net assets in its governmental activities as of June 30, 2006. The Fiscal Court's discretely presented component unit had net assets of \$4,524,138 as of June 30, 2006. The discretely presented component unit had net cash and cash equivalents of \$2,354,340. The Fiscal Court had total debt principal as of June 30, 2006 of \$5,575,495 with \$265,495 due within the next year. The discretely presented component unit had total debt principal as of June 30, 2006 of \$2,069,000 with \$81,000 due within the next year.

Deposits:

Both the fiscal court's and the component unit's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

Independent Auditor's Report	PAGE 1 – 2
Cumberland County Officials	3
Management's Discussion and Analysis	4 – 12
Government-wide Financial Statements	13
Statement of Net Assets - Modified Cash Basis	14 – 15
Statement of Activities – Modified Cash Basis	16 – 17
Governmental Fund Financial Statements	18
Balance Sheet – Governmental Funds – Modified Cash Basis	19
Statement of Revenues, Expenditures, and Changes in Fund Balances –	
Governmental Funds – Modified Cash Basis	20
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Modified Cash Basis	21
Notes to the Financial Statements	22 – 36
Required Supplementary Information	37
Budgetary Comparison Schedules – Major Funds – Modified Cash Basis	38 – 41
Notes to the Required Supplementary Information	42
Other Supplementary Information	43
Combining Balance Sheet – Non-major Governmental Funds – Modified Cash Basis	44
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Non-major Governmental Funds – Modified Cash Basis	45
Schedule of Finding and Questioned Costs	46 – 47
Schedule of Expenditures of Federal Awards	48 – 49
Notes to the Schedule of Expenditures of Federal Awards	50
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance With Government Auditing Standards	51 – 53
Report on Compliance with Requirements Applicable to Each Major Program on Internal Control Over Compliance in Accordance with OMB Circular A-133	54 - 56

Appendi	x A:					
	Certificate of Comp	oliance - Local	Government Econom	ic Assistance	Program	57 - 58

JONES



CERTIFIED PUBLIC ACCOUNTANTS

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 ☐ (859) 269-1949

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tim Hicks, County Judge/Executive
Members of the Cumberland County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cumberland County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Cumberland County, Kentucky's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Cumberland County Hospital Association, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the discretely presented component unit, is based on the report of the other auditors. Those financial statements reflect 100% of the assets and revenues of the discretely presented component unit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

As described in Note 1, Cumberland County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

The financial statements of the Cumberland County Hospital Association, Inc., a discretely presented component unit, are presented according to accounting principles generally accepted in the United States of America. This basis of accounting is different from the modified cash basis of accounting in that certain accruals of assets, liabilities, revenues, and expenses are made to the financial statements of the Cumberland County Hospital Association, Inc. that are not recognized under the modified cash basis of accounting used in preparing the financial statements of Cumberland County, Kentucky. The amounts by which these departures affect the assets, liabilities, revenues, and expenses of the financial statements are 53.9%, 30.2%, 12.2%, and 3.5%, respectively.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
Honorable Tim Hicks, County Judge/Executive
Members of the Cumberland County Fiscal Court
(Continued)

In our opinion, based on our audit and the report of the other auditors, except for the effects of the departures discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the discretely presented component unit of Cumberland County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cumberland County, Kentucky, as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with the modified cash basis of accounting as described in Note 1.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Cumberland County, Kentucky's basic financial statements. The accompanying supplementary information, which consists of combining fund financial statements, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, <u>Audits of States, Local Governments and Non-profit Organizations</u>, and is not a required part of the basic financial statements. The combining fund financial statements and the Schedule of Expenditures of Federal Awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 29, 2008, on our consideration of Cumberland County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

Jones & Ritchie, PSC

Jones & Ritchie, PSC Certified Public Accountants

April 29, 2008

Cumberland County Officials

June 30, 2006

Fiscal Court Members:

Tim Hicks County Judge/Executive

Thomas J. Brown Magistrate

Edward Anderson Magistrate

James V. Groce Magistrate

Dewey Earl Branham Magistrate

Other Elected Officials:

Lindsey Bell County Attorney

Rondall Wray Jailer

Lynn Cyphers County Clerk

James Pruitt Sheriff

Hazel Jones Circuit Court Clerk

Gina Shaye Watson Property Valuation Administrator

Gary White Coroner

Appointed Personnel:

Stacey Thrasher County Treasurer

Stacey Thrasher Occupational Tax Collector

Eugenia Ferguson Deputy Judge/County Finance Officer

Note: List of officials who were in office as of June 30, 2006.

Cumberland County Management's Discussion and Analysis

June 30, 2006

The financial management of Cumberland County, Kentucky offers readers of Cumberland County's financial statements this narrative overview and analysis of the financial activities of Cumberland County for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our letter of transmission and the notes to the financial statements.

Financial Highlights

- Cumberland County had net assets of \$1,867,205 as of June 30, 2006. The fiscal court had unrestricted net assets of \$180,914 in its governmental activities as of June 30, 2006. Total debt for governmental activities as of June 30, 2006 was \$5,575,495 with \$265,495 due within one year.
- The governmental activities' total net assets increased by \$333,896 from the prior year. This increase was primarily due to an increase in infrastructure assets.
- At the close of the current fiscal year, Cumberland County governmental activities reported current assets of \$181,020. Of this amount, \$180,914 is available for spending at the government's discretion (unrestricted net assets).
- Cumberland County's total indebtedness at the close of fiscal year June 30, 2006 was \$5,575,495, of which \$5,310,000 is long-term debt (due after 1 year) and \$265,495 is short-term debt (to be paid within 1 year). Debt additions were \$208,400, and debt reductions were \$485,672 for a net decrease of \$277,272 for the year.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Cumberland County's basic financial statements which are comprised of three components: 1) government-wide financial statements, 2) governmental fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

GASB 34 requires management to include certain comparison schedules when they are available. These schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of Cumberland County's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of Cumberland County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of the financial position of Cumberland County.

The Statement of Activities presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Government-wide Financial Statements (Continued)

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities. As a result, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) and compensated absences are not recorded

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Cumberland County's governmental activities include general government, protection to persons and property, general health and sanitation, social services, recreation and culture, transportation facilities and services, roads, debt service, and capital projects. The County does not have a business-type activity.

The government-wide financial statements include not only Cumberland County (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Cumberland County has one such entity, Cumberland County Hospital Association, Inc., which is described as a major discretely presented component unit.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Cumberland County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of Cumberland County are *governmental funds*.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental* activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and current outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is more narrow than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund Balance Sheet and the Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Cumberland County maintains (8) eight individual governmental funds. Information is presented separately for the major funds (General Fund, Road Fund, Public Properties Corporation Justice Center Bond Fund, and Grant Fund), and is combined for the non-major funds (Jail Fund, Local Government Economic Assistance Fund, Fire Protection Fund, and Public Properties Corporation Justice Center Construction Fund) in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances.

Governmental Funds (Continued)

Cumberland County adopts an annual appropriated budget. A budgetary comparison statement has been provided for the General Fund, the Road Fund and the Grant Fund to demonstrate compliance with their budgets.

Discretely Presented Component Units

Component units are operations for which the County has some financial accountability, but also have certain independent qualities as well. Component units operate similarly to private sector businesses. Cumberland County has only one discretely presented component unit, the Cumberland County Hospital Association, Inc. This component unit's financial information is included on the government-wide financial statements of the Statement of Net Assets and the Statement of Activities in a separate column.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Analysis of the County as a Whole

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Table 1 Cumberland County's Net Assets

Governmental Activities

		2005	2006
Assets Current and other assets	\$.	683,553 \$	181 020
Capital assets Total assets		6,702,523 7,386,076 \$	7,261,680
Liabilities (Current and other liabilities)	\$	277:273 \$	265,495
Long-term liabilities Total liabilities	\$ 3	5,575,494 5,852,767 \$	5,310,000 5,575,495
Net assets Invested in capital assets inet of related debt	Š	8849.756 \$	
Restricted Unrestricted		320,120 363,433	106
Total net assets	\$	1,533,309 \$	1,867,205

Financial Analysis of the County as a Whole (Continued)

Changes in Net Assets

Governmental Activities. Cumberland County's net assets increased by \$333,896 in fiscal year 2006. Key elements of this are as follows:

- Current assets and cash decreased \$502,533, due primarily to an increase in infrastructure assets.
- Investment in capital assets and infrastructure, net of related debt increased by \$836,429 primarily due to the inclusion of infrastructure (roads and bridges) capital assets and the purchase of land.
- Current and long-term liabilities decreased by \$277,272 due to payments on the debt.

Financial Analysis of the County as a Whole (Continued)

Changes in Net Assets (Continued)

Table 2 Cumberland County's Statement of Activities

Governmental Activities

Revenues:	2005	2006	Difference	Percentage Change
General ,	\$ 647,677	\$ 772.633. \$	124,956	19%
Charges for services	7,793	4,046	(3,747)	(48%)
Operating grants and contributions;	1758 395	2 875 524	1,117,129	64%
Capital grants and contributions		440,268	440,268	
Totals	\$ 2,413.865	\$ 41092;47,1 \$	1,678,606	70%
Expenses: General government	\$ 896,809	\$ 2.348,444 \$	1,451,635	162%
Protection to persons and property	171,180	292,818	121,638	71%
Protection to persons and property General health and sanitation	171,180 	292,818 -97,096	121,638	71%
General health and sanitation	99,636	97,096	(2,540)	(3%)
General health and sanitation Social services	99.636 845	97.096 4,279	(2,540) 3,434	(3%) 406%
General health and sanitation Social services Recreation and culture	99.636 845 4 48.482	4,279 *48,162	3,434 (320)	(3%) 406% (1%)
General health and sanitation Social services Recreation and culture Transportation facilities and services	99,636 845 48,482 5,029	97/096 4,279 48/162 5,875	3,434 (2,540) 3,434 (320) 846	(3%) 406% (1%) 17%
General health and sanitation Social services Recreation and culture Transportation facilities and services Roads	99,636 845 48,482 5,029 555,251	97.096 4,279 48.162 5,875	(2,540) 3,434 (320) 846 1,77,503	(3%) 406% (11%) 17%

Financial Analysis of the County's Funds

As noted earlier, Cumberland County uses fund accounting to ensure and demonstrate compliance with finance-related requirements.

Governmental Funds Overview. The focus of Cumberland County governmental funds is to provide information on current inflows, current outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2006, the combined ending fund balances of the County's governmental funds were \$181,020. Approximately 43% (\$78,414) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$102,606) is reserved to indicate that it is not available for new spending because it is committed.

The County has four major governmental funds (General Fund, Road Fund, Public Properties Corporation Justice Center Bond Fund, and Grant Fund), and four non-major funds (Jail Fund, Local Government Economic Assistance Fund, Fire Protection Fund, and Public Properties Corporation Justice Center Construction Fund).

- 1. The **General Fund** is the chief operating fund of Cumberland County. At the end of the June 30, 2006 fiscal year, unreserved fund balance of the General Fund was \$53,501 while total fund balance was \$68,395. The County received \$547,719 in real and personal property, motor vehicle, occupational, and other taxes for approximately 59% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 41% of revenues.
- 2. The **Road Fund** accounts for the County's construction and maintenance of its roads and bridges. The Road Fund had a \$67,325 fund balance at June 30, 2006. The fiscal year 2006 expenditures for the Road Fund were \$1,518,111.
- 3. The **Public Properties Corporation Justice Center Bond Fund** at June 30, 2006, had a fund balance of \$106. These funds are to be used for debt service.
- 4. The **Grant Fund** had a balance of \$140 as of June 30, 2006 and is used to account for federal or state monies received. The County received \$967,324 in grant funds, most of which was for a senior citizens center.
- 5. The **Jail Fund** had a fund balance of \$17,922 as of June 30, 2006, an increase of \$7,897 over the previous fiscal year end.
- 6. The **Local Government Economic Assistance Fund** had a fund balance of \$13,566 as of June 30, 2006, a decrease of \$5,483 over the previous fiscal year end.
- 7. The **Fire Protection Fund** had a fund balance of \$13,078 as of June 30, 2006, an increase of \$983 over the previous fiscal year end.

Financial Analysis of the County's Funds (Continued)

Governmental Funds Overview (Continued)

8. The **Public Properties Corporation Justice Center Construction Fund** had a fund balance of \$488 as of June 30, 2006.

General Fund Budgetary Highlights

Cumberland County's General Fund budget was amended during the fiscal year increasing the budgeted amount by \$202,113. Budget amendments were made to various expenditures due primarily to grants awarded in the fiscal year, surplus cash carried forward, short term borrowed money, and an increase in taxes revenue.

Actual revenues were \$23,921 over budget. This variance was due primarily to small increases in most of the revenues.

Capital Assets and Debt Administration

Capital Assets. Cumberland County's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$7,261,680 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings, other equipment, vehicles and equipment, infrastructure assets (roads and bridges), and construction in progress for bridge construction. Cumberland County has elected to report infrastructure capital assets (roads and bridges) as of July 1, 2003 and forward in accordance with GASB 34 provisions.

Major capital asset events during the 2006 fiscal year included the purchase of land and infrastructure assets.

Additional information of the County's capital assets can be found in Note 4 of this report.

Capital Assets and Debt Administration (Continued)

Table 3 Cumberland County's Capital Assets, Net of Accumulated Depreciation

Governmental Activities

		2005	<u>2006</u>
Infrastructure Assets	\$	596,448 636,344	\$ 1,186,642
Land and land improvements Construction in progress		74,598	40,293
Buildings		4,977,030	4,894,019
Other equipment Wehicles and equipment		303,026	279,072 100,310
Total Net Capital Assets	\$ _	6,702,523	\$ 7,261,680

Long-term Debt. At the end of the 2006 fiscal year, Cumberland County had total long-term debt outstanding of \$5,575,495 in Mortgage Revenue Bonds of \$5,535,000, capital lease obligations of \$18,087, and financing obligations of \$22,408.

Short-term Debt. During the fiscal year 2006, the County had a total of \$208,400 in short-term loans (Kentucky Advanced Revenue Program). As of June 30, 2006 these loans were repaid.

Additional information on the County's long-term debt can be found in Note 5 of this report.

Requests for Information

This financial report is designed to provide a general overview of Cumberland County's finances. Questions concerning any of the information provided or requests for additional financial information should be addressed to the Cumberland County Treasurer, P. O. Box 826, Burkesville, Kentucky 42717-0826.

Questions concerning the audit report of the Cumberland County Hospital Association, Inc. should be addressed to the Chief Financial Officer, P. O. Box 280, Burkesville, Kentucky 42717.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Cumberland County Statement of Net Assets - Modified Cash Basis

June 30, 2006

	<u>. I</u>	Primary Government Governmental	<u>t</u> .	Component Unit Cumberland County Hospital
	_	Activities		Association, Inc.
Assets				
Current assets:				
Cash and cash equivalents	\$	181,020	\$	2,354,340
Accounts receivable				2,048,110
Supplies				222,315
Prepaid expenses	_			249,478
Total current assets	\$_	181,020	\$	4,874,243
Non-current assets:				
Capital assets, net of accumulated depreciation				
Construction in progress	\$	40,293	\$	
Land and land improvements		761,344		116,666
Buildings		4,894,019		2,137,323
Other equipment		279,072		359,806
Vehicles and equipment		100,310		
Infrastructure assets	_	1,186,642		
Total non-current assets	. \$_	7,261,680	\$	2,613,795
Total assets	\$_	7,442,700	_ \$.	7,488,038
Liabilities				
Current liabilities:				
Bonds payable	\$	225,000	\$	81,000
Capital lease obligations		18,087		
Financing obligations		22,408		
Accounts payable				477,561
Accrued interest				51,725
Accrued payroll liabilities				259,629
Other liabilties				105,985
Total current liabilities	\$_	265,495	_ \$ _	975,900
Noncurrent liabilities:				
Bonds payable	_	5,310,000		1,988,000
Total liabilities	\$_	5,575,495	\$	2,963,900

Cumberland County Statement of Net Assets - Modified Cash Basis June 30, 2006 (Continued)

	<u>Pri</u>		Primary Government Governmental Activities		
Net assets		_	•		
Invested in capital assets, net of related debt	\$	1,686,185	\$	625,795	
Restricted		106			
Unrestricted	_	180,914		3,898,343	
Total net assets	\$	1,867,205	\$	4,524,138	

The accompanying notes are an integral part of the financial statements.

Cumberland County Statement of Activities - Modified Cash Basis

For the Year Ended June 30, 2006

Net (Expenses) **Program Revenues** Revenues and Received **Changes in Net Assets** Component **Primary Government** Unit Operating Capital Cumberland Charges Grants Grants County Functions/programs for and and Governmental Hospital Reporting entity **Activities Expenses Services** Contributions Contributions Association, Inc. **Primary government** Governmental activities: General government 2.348.444 \$ 4.046 \$ \$ 1,914,382 \$ (430,016) \$ Protection to persons and property 292,818 (292,818)General health and sanitation 97,096 (97,096)Social services 4,279 (4,279)Recreation and culture 48,162 (48, 162)Transportation facilities and services 5.875 (5,875)Roads 732,754 928,075 195,321 Debt service (interest) 226,710 20,550 83 (206,077)Capital projects 2,437 12,517 440,185 450,265 Total governmental activities 3,758,575 \$ 4,046 \$ 2,875,524 \$ 440,268 (438,737)Total primary government 4,046 \$ 2,875,524 440,268 3,758,575 \$ (438,737)Component unit Cumberland County Hospital Association, Inc. 9,809,516 9,980,567 \$ (171,051) Total component unit 9,980,567 \$ 9,809,516 (171,051)

Cumberland County
Statement of Activites - Modified Cash Basis
For the Year Ended June 30, 2006
(Continued)

Changes in Net Assets Component **Primary Government** Unit Cumberland County Governmental Hospital Association, Inc. **Activities** General revenues Taxes: \$ 96,349 \$ Real property taxes Personal property taxes 9,937 31,564 Motor vehicle taxes and licenses 300,455 Occupational taxes 112,221 Other taxes Excess fees 1,009 Intergovernmental revenues 209,368 97,034 Unrestricted investment earnings 1,891 389,492 9,839 Miscellaneous revenues Total general revenues 772,633 \$ 486,526 Change in net assets 333,896 \$ 315,475 Net assets - Beginning 4,208,663 1,533,309 1,867,205 \$ 4,524,138 Net assets - Ending

Net (Expenses) Revenues and

The accompanying notes are an integral part of the financial statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Cumberland County Balance Sheet - Governmental Funds - Modified Cash Basis

June 30, 2006

		General Fund		Road Fund		Public Properties Corporation ustice Center Bond Fund		Grant Fund		Non- major Funds		Total Govern- mental Funds
Assets												
Cash and cash equivalents	\$	68,395	- \$ —	67,325	. \$	106	. \$ -	140	. \$.	45,054	· ^{\$} —	181,020
Total assets	\$	68,395	*	67,325	\$	106	\$ =	140	\$.	45,054	. \$ _	181,020
Fund balances Reserved for:												
Encumbrances Debt service fund Unreserved:	\$	14,894	\$	86,621	\$	106	\$		\$	985	\$	102,500 106
General fund Special revenue fund		53,501		(19,296)				140		43,581		53,501 24,425
Capital project fund					_					488	-	488
Total fund balances	\$	68,395	* _	67,325	*	106	\$ _	140_	\$	45,054	*=	181,020
Reconciliation of the Balance Sheet -	Governmental	Funds to the	State	ment of Net As	sets:							
Total fund balances											\$	181,020
Amounts reported for governmental activare different because: Capital assets used in governmental												
and therefore are not reported in t		n illianciai les	ouices									7,970,974
Accumulated depreciation												(709,294)
Liabilities in governmental activities a Current liabilities due within one y	•		ise obl	inations								(265,495)
Non-current liabilities due in more	_										_	(5,310,000)
Net assets of governmental activities											\$_	1,867,205

The accompanying notes are an integral part of the financial statements.

Cumberland County

Statement of Revenues, Expenditures, and Changes in Fund Balances -Governmental Funds - Modified Cash Basis

For the Year Ended June 30, 2006

Public Properties

		General Fund		Road Fund		Corporation Justice Center Bond Fund		Grant Fund		Non- major Funds		Total Govern- mental Funds
Revenues	_						_				_	
Taxes	\$	515,028	\$		\$		\$		\$	3,278	\$	518,306
In lieu tax payments		32,691										32,691
Excess fees		1,009										1,009
License and permits		2,846										2,846
Intergovernmental		302,325		1,490,564		440,185		958,929		240,011		3,432,014
Miscellaneous		72,434		2,252				8,395				83,081
Interest	_	6,530	_	12,821	_	83			_	3,090	_	22,524
Total revenues	\$ _	932,863	\$_	1,505,637	\$_	440,268	. \$ _	967,324	. \$ _	246,379	\$_	4,092,471
Expenditures												
General government	\$	821,393	\$	144,414	\$		\$	895,347	\$	401,324	\$	2,262,478
Protection to persons and property		48,505						1,644		237,281		287,430
General health and sanitation		63,082						32,000				95,082
Social services		84,279										84,279
Recreation and culture		48,162										48,162
Transportation facilities and services				5,875								5,875
Roads				1,305,279								1,305,279
Debt service		3,668		60,106		440,208						503,982
Capital projects	_		_	2,437	_		. <u> </u>		-		_	2,437
Total expenditures	\$_	1,069,089	\$_	1,518,111	\$_	440,208	\$_	928,991	. \$ _	638,605	\$_	4,595,004
Excess (deficiency) of revenues over expenditures before other financing												
sources (uses)	\$ _	(136,226)	\$_	(12,474)	\$_	60	\$_	38,333	. \$ _	(392,226)	\$_	(502,533)
Other financing sources (uses)				•								
Transfers from other funds	\$	215,719	\$		\$		\$	4,170	\$	160,000	\$	379,889
Transfers to other funds		(164,170)	_	(169,896)	_		_	(45,823)	_		_	(379,889)
Total other financing sources (uses)	\$_	51,549	\$_	(169,896)	\$_	-	. \$ _	(41,653)	\$_	160,000	\$_	
Net change in fund balances	\$	(84,677)	\$	(182,370)	\$	60	\$	(3,320)	\$	(232,226)	\$	(502,533)
Fund balances - beginning	_	153,072	_	249,695	_	46	_	3,460	_	277,280	_	683,553
Fund balances - ending	\$	68,395	\$ _	67,325	\$_	106	\$ =	140	\$_	45,054	\$ _	181,020

The accompanying notes are an integral part of the financial statements.

Cumberland County Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Modified Cash Basis

For the Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net change in fund balances - Total governmental funds	\$ (502,533)
Governmental funds report capital outlays as expenditures and sales of capital assets as revenues. However, in the Statement of Activities the costs of those assets are allocated over their estimated useful lives and reported as depreciation expense. In addition, the Statement of Activities reports gains	
and losses on disposals of assets.	
Capital outlay	716,084
Depreciation expense	(156,927)
Governmental funds report money borrowed as an other financing source and debt principal payments as an expenditure. However, in the Statement of Activities, these payments are excluded.	
Capital lease and financing obligation payments	57,272
Bond payments	 220,000
Change in net assets of governmental activities	\$ 333,896

Cumberland County Notes to the Financial Statements

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The County presents it's government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements. However, financial statements of the Cumberland County Hospital Association, Inc., a discretely presented component unit, are prepared on the accrual basis in accordance with accounting principles generally accepted in the United States of America.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities. However, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the County to report capital assets and infrastructure assets. However, the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included in the Statement of Activities.

B. Reporting Entity

The financial statements of Cumberland County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the County is financially accountable or the organization's exclusion would cause the County's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. However, the Cumberland County Tourism Commission, a component unit, is excluded from the financial statements because the County only includes material component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government, and the fiscal court is able to impose its will on this organization. The organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Cumberland County Public Properties Corporation

On September 11, 2001, the Cumberland County Fiscal Court (Fiscal Court) established the Cumberland County Public Properties Corporation (Corporation) for the purpose of the acquisition, construction, and financing of public projects for and on behalf of Cumberland County. The Corporation is composed of the five members of the Fiscal Court - the Cumberland County Judge/Executive and the four magistrates - and has perpetual existence. The ability of the Fiscal Court to exercise complete authority over this entity makes it a component unit of the County. The financial information for the Cumberland County Public Properties Corporation is blended within Cumberland County's financial statements.

Discretely Presented Component Unit

The following legally separate organization is reported in a separate column labeled "Component Unit" on the Statement of Net Assets and the Statement of Activities to emphasize that this organization is separate from the fiscal court's primary government.

Cumberland County Hospital Association, Inc.

The Cumberland County Fiscal Court does not appoint a voting majority of the Cumberland County Hospital Association, Inc.'s (Association) governing board. However, the Association is headed by the County Judge/Executive and is a legally separate organization set up exclusively to engage in the everyday operations of the Cumberland County Hospital (Hospital). The Fiscal Court owns the Hospital's land, building, and equipment and is financially accountable and legally obligated for the debt of the Hospital. Exclusion of this entity as a component unit of Cumberland County would cause the county's financial statements to be misleading or incomplete. The financial information for the Association is presented discretely within Cumberland County's financial statements. All activities of the Association are accounted for within a governmental fund.

Audited financial statements for the Cumberland County Hospital Association, Inc., a discretely presented component unit, may be requested by contacting the Cumberland County Hospital, P. O. Box 280, Burkesville, Kentucky 42717.

C. <u>Cumberland County Elected Officials</u>

Kentucky law provides for election of officials below from the geographic area constituting Cumberland County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the County, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements, which are not required to be included in the financial statements of Cumberland County, Kentucky, are issued separately and individually, and can be obtained from their respective administrative offices.

Note 1. Summary of Significant Accounting Policies (Continued)

C. <u>Cumberland County Elected Officials</u> (Continued)

Cumberland County has the following elected officials:

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff, and
- Property Valuation Administrator.

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component unit. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Cumberland County did not have any business-type activities during the fiscal year.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt – consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets – resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets – those assets that do not meet the definition of restricted net assets or invested in capital assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (government or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the financial statements.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds

The primary government reports the following major governmental funds:

General Fund – This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund – This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Public Properties Corporation Justice Center Bond Fund – This fund accounts for the activities of the Public Properties Corporation, a blended component unit of the county. The Cumberland County Public Properties Corporation issued debt to build a Justice Center facility. The Governor's Office for Local Development does not require the Fiscal Court to report or budget this fund.

Grant Fund – This fund is used to account for state and federal grants received.

The primary government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Fire Protection Fund, and the Public Properties Corporation Justice Center Construction Fund.

Generally, and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount on November 30, due at face value on December 31, delinquent on January 1 following the assessment, and subject to lien and sale the third Saturday in April following the delinquency date.

Special Revenue Funds

The Road Fund, Grant Fund, Jail Fund, Local Government Economic Assistance Fund, and Fire Protection Fund are presented as *special revenue funds*. Special revenue funds account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund

The Public Properties Corporation Justice Center Construction Fund is presented as a Capital projects fund. Capital projects funds account for the financial resources to be used for the acquisition or construction of major capital facilities.

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Debt Service Fund

The Public Properties Corporation Justice Center Bond Fund is presented as a *debt service fund*. Debt service funds account for the accumulation of resources for, and payment of, general long-term debt principal and interest.

Presentation of Component Unit

The financial statements present the Cumberland County Hospital Association, Inc. as a major discretely presented component unit.

The component unit is presented in a separate column on the Statement of Net Assets and the Statement of Activities to emphasize that the organization exists separate from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the County to invest in the following including, but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligations permitted by KRS 41.240 (4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction in Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure assets are depreciated using the straight-line method of depreciation over the estimated useful life of the asset. The County has chosen to report only infrastructure assets (roads and bridges) placed in service on or after July 1, 2003, as permitted by GASB 34. These infrastructure assets are reported at actual historical cost. Capital assets are capitalized using the following capitalization threshold and are depreciated using the following useful lives:

Note 1. Summary of Significant Accounting Policies (Continued)

F. Capital Assets (Continued)

	Capitaliz Thresh		Useful Lifetin <u>Years</u>
Infrastructure Land improvements.	\$	20,000 10,000	20 – 40 20 – 25
Buildings and improvements Vehicles		25,000 5,000	10 – 60 5 – 20
Machinery and equipment		5,000	5 – 20

G. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes, and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" represents purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet – Governmental Funds as part of the Fund Balance.

Note 1. Summary of Significant Accounting Policies (Continued)

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget, prepared by fund, function, and activity, is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The Cumberland County Public Properties Corporation (a blended component unit) and the Cumberland County Hospital Association, Inc. (a discretely presented component unit) are not budgeted by the County. The Governor's Office for Local Development does not require the Fiscal Court to budget or report these funds.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose its will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Cumberland County Water District is considered a related organization of the Cumberland County Fiscal Court.

K. Joint Ventures

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following are considered as joint ventures of the Cumberland County Fiscal court.

- Cumberland-Burkesville Nursing Home Corporation (with the City of Burkesville) and the
- Tri-County Animal Control (with Clinton County Fiscal Court and Wayne county Fiscal Court).

L. Jointly Governed Organization

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, the Burkesville Cumberland County Industrial Development Authority is considered a jointly governed organization of the Cumberland County Fiscal court.

Note 2. Deposits

The primary government and discretely presented component unit maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC), as required by KRS 64.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. To be valid against the FDIC in the event of failure or insolvency of the depository institution, this

Note 2. Deposits (Continued)

pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, which is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and the approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned. The county does not have a formal deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). These requirements were met for the County, and as of June 30, 2006, the primary government's deposits were fully insured and collateralized at a 100% level with collateral of either pledged securities held by the County's agent in the County's name, or provided a security bond which named the primary government or component unit as beneficiary/obligee on the bond.

Note 3. Employee Retirement System

The County has elected to participate in the County Employee Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5 percent of their salary to the plan. The County's contribution rate for non-hazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 4. Capital Assets

Capital asset activity for governmental activities of the primary government for the year ending June 30, 2006 follows:

		Primary Gover	nment	
	Beginning <u>Balance</u>	Increas <u>e</u>	Decrease	Ending <u>Balance</u>
Capital assets not being depreciated:	<u>Dalance</u>	<u>IIICIGASE</u>	Decrease	Dalance
Land and land improvements \$	636,344	\$ 125,000 \$	\$	761,344
Construction in progress	74:598	40,293	-74:598	40,293
Capital assets being depreciated:			elipentuurin vata konnon muunda erainmuu h	መም የሐፍሮችን ድንስስ ገንደና የጀመር እና መጥጥ የአስታ ተከታል
Buildings	5,184,295			5,184,295
Other equipment	527,344	10,235		537,579
Venicles and equipment	193,117			193,117
Infrastructure	639,192	615,154_		1,254,346
Total capital assets 40-5	7,254,890	\$ 790 682 \$	74,598 -\$	7:970,974
Less: Accumulated depreciation	552,367	156,927		709,294
Government activities capital assets net	6,702,523	\$ <u>6337755</u> \$	74,598	7,261,680

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General government	3 6
Protection to persons and property 5,38 General health and sanitation 2201	38 14
Roads, including depreciation of general infrastructure assets 63,55	<u>59</u>
Total depreciation expense – Governmental activities \$ 156 92	27.

Note 4. Capital Assets (Continued)

Capital asset activity for the discretely presented component unit, the Cumberland County Hospital Association, Inc., for the year ending June 30, 2006 follows:

	i de la companya de l La companya de la co	cretely Presented C	omponent:Unit	
	Beginning	•		Ending
	<u>Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u>
Capital assets not being depreciated				
Land and land		·		
improvements	\$ 262,310 \$	\$	\$	262,310
Construction in progress				
Capital assets being				
depreciated:				
Buildings	3 528 083			3,528,083
Other equipment	3,102,216	150,485_	125,050	3,127,651
Total capital assets	\$ 6,892,609	150.485	125,050 +\$	6.918.044
Less: Accumulated				m sersiyalyayaya
depreciation	4,153,590	275,709	125,050	4,304,249
				-,00-,2-19
Capital assets net	\$ 2,739,019	<u>(125,224)</u> \$	\$	2,613,795

Depreciation expense of \$275,709 was charged to functions of the discretely presented major component unit as follows:

Discretely Presented Component Unit:

Cumberland County Hospital Association, Inc. 275,70	09
---	----

Note 5. Long-term Debt

A. Revenue Bonds - Primary Government

Cumberland County Public Properties Corporation Mortgage Revenue Bonds - Series 2002

On December 23, 2002 the Cumberland County Public Properties Corporation issued \$5,560,000 of mortgage revenue bonds for the purpose of constructing a Justice Center facility. The bonds mature serially through September 1, 2023 and require annual principal payments on September 1 and semi-annual interest payments at rates ranging from 2.00% to 4.5% on March 1 and September 1 of each year. Bonds outstanding as of June 30, 2006 were \$5,155,000.

Note 5. Long-term Debt (Continued)

A. <u>Revenue Bonds – Primary Government</u> (Continued)

<u>Cumberland County Public Properties Corporation Mortgage Revenue Bonds – Series 2002</u> (Continued)

Future principal and interest requirements are:

Eiscal Year Ended June 30	Scheduled Interest	Scheduled <u>Principal</u>
2007	\$ 199,496 \$	210,000
-2008	194,446	215,000
2009	188,596	220,000
2010	181918	225,000
2011	174,584	235,000
2012 - 2016	738.7416	1,300,000
2017 – 2021	441,186	1,605,000
2022 - 2024 (1974)	78,863	⁷ 1,145,000
Total		

Cumberland County Public Properties Corporation Mortgage Revenue Bonds - Series 2004

On February 4, 2004 the Cumberland County Public Properties Corporation issued \$405,000 of mortgage revenue bonds to complete the construction of the Justice Center facility. The bonds mature serially through September 1, 2023 and require annual principal payments on September 1 and semi-annual interest payments at the rate of 4.2% on March 1 and September 1 of each year. Bonds outstanding as of June 30, 2006 were \$380,000.

Note 5. Long-term Debt (Continued)

A. Revenue Bonds - Primary Government (Continued)

Cumberland County Public Properties Corporation Mortgage Revenue Bonds - Series 2004 (Continued)

Future principal and interest requirements are:

Fiscal Year Ended June 30		Scheduled Interest	eduled. Icipal
2007	\$	15,645	\$ 15,000
2008		7.15,015	15,000
2009		14,385	15,000
2010 11 11 11 11 11 11 11 11 11 11 11 11		13,755	15,000
2011		13,125	15,000
2012 - 2016 () ()		53,550	100,000
2017 – 2021		30,870	120,000
2022 = 2023		5,565	85,000
Total	\$_	161,910	\$ 380,000

B. Capital Lease Obligations - Primary Government

Road Grader

On April 24, 2002 the Cumberland County Fiscal Court entered into a capital lease agreement with Caterpillar Financial Services Corporation for the purchase of a road grader for the county road department. The principal was \$109,492 at an effective interest rate of 4.8 percent for a period of five years, with principal and interest paid monthly. The principal balance outstanding as of June 30, 2006 was \$18,087.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Sche <u>Inte</u>	duled rest	Scheduled 12 Principal
2007	\$	346_ \$	18,087
		CONTRACTOR PROPERTY AND INC.	

Note 5. Long-term Debt (Continued)

C. Financing Obligations - Primary Government

Tractor/Mower

On December 22, 2004 Cumberland County entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of a tractor/mower for the county road department. The principal was \$62,756 at an effective interest rate of 2.62 percent for a period of two years, with interest and principal paid monthly. The principal balance outstanding as of June 30, 2006 was \$22,408.

Future principal and interest requirements are:

Fiscal Year Ended June 30	Sched Inter	luled rest	Scheduled Principal
2007	\$	203 \$	22,408

D. Changes in Long-term Debt - Primary Government

		Begini Balar			Additions	Rec	luctions		End Bala	ing nce		Due On	Within e Year
Revenue	•			_								_	
bonds	\$	5,/5	5,000	\$		\$	220,000	\$	5,535	,000	\$	2	25,000
Capital lease obligations			1 212				23.125		18	,087			18.087
to the second se				经和范围				1247					
Financing					•								
obligations		- 56	3,555				34,147		22	,408			22,408
Total	\$	5,85	2,767	\$		\$	277 272	\$	5,575	495	\$.	2	265,495

E. Revenue Bonds - Discretely Presented Component Unit

Cumberland County Health Services Corporation Mortgage Revenue Bonds - Series 1992

In 1992, the Cumberland County Hospital Association, Inc. entered into a lease agreement and trust indenture with the Cumberland County Fiscal Court to pay principal and interest on a Series 1992 bond issue to finance the construction of an addition to the Cumberland County Hospital. The bonds mature serially through January 1, 2022 and require annual principal and interest payments at rates ranging from 5.25% to 6.75% with payments due on January 1. The bonds are to be collateralized by all revenues generated by the Cumberland County Hospital. Under the terms of the lease agreement and trust indenture, the Cumberland County Hospital is required to maintain certain deposits with a trustee. Bonds outstanding for the Cumberland County Health Services Corporation, a public, nonprofit governmental corporation that leases the land and building utilized by the Hospital to Cumberland County, as of June 30, 2006 were \$2,069,000.

Note 5. Long-term Debt (Continued)

E. Revenue Bonds - Discretely Presented Component Unit (Continued)

Cumberland County Health Services Corporation Mortgage Revenue Bonds - Series 1992 (Continued)

Future principal and interest requirements are:

Fiscal Year Ended June 30	STATE OF THE PARTY	neduled nterest	Scheduled Rrincipal
2007	\$	103,450 \$	81,000
2008		99,400 95,100	86,000
2010		90,550	91,000 97,000
2011		85,700	102,000
2012—2016 2017—2021		345·600;	609,000
2017 – 2021 2022		174,400 \$29,650	810,000 193,000
Total	\$	1,003,850 \$	2,069,000

F. Changes in Long-term Debt - Discretely Presented Component Unit

		Beginning Balance	Increase	Ē	ecrease.		Ending Balance
Revenue bonds	\$	2,146,000	\$ · 	\$	77,000	\$	2,069,000
Total	¢	2.1/16.000		j P	77,000	¢	2.060,000

Note 6. Short-term Debt

On July 1, 2005 the Cumberland County Fiscal Court participated in the Kentucky Association of Counties Kentucky Advanced Revenue Program. The principal amount of \$208,400 was repaid prior to June 30, 2006.

Note 6. Short-term Debt (Continued)

Primary Governmen	Begir 11. Bala	nning A	dditions	Reductions	Ending Balance
Governmental activiti Kentucky Advanced Revenue Program		\$	208,400 \$	208 200	
Total	\$	\$	208,400 \$	208,400	\$

Note 7. Interest Included in Debt Service

Debt service on the Statement of Activities includes the following: short-term interest paid of \$3,668 for Kentucky Advanced Revenue Program borrowed money, long-term interest paid of \$1,383 on financing obligations, interest paid of \$1,451 on capital lease obligations, and interest paid of \$220,208 on bonds and notes.

Note 8. Insurance

For the fiscal year ended June 30, 2006, Cumberland County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for the payment of the excess losses.

REQUIRED SUPPLEMENTARY INFORMATION

Cumberland County Budgetary Comparison Schedules - Major Funds Required Supplementary Information Modified Cash Basis

For the Year Ended June 30, 2006

	_	General Fund								
D	Budgeted Amounts Original Final					Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)			
Revenues	•	500 700	•	500 474	•	E4E 000	•	0.057		
Taxes	\$	503,700	\$	508,171	\$	515,028	\$	6,857		
In lieu tax payments		24,000		26,858		32,691		5,833		
Intergovernmental		211,628		295,593		302,325		6,732		
Excess fees		500		500		1,009		509		
Licenses and permits		1,400		2,800		2,846		46		
Miscellaneous		66,250		67,020		72,434		5,414		
Interest	-	8,000	-	8,000		6,530	-	(1,470)		
Total revenues	\$_	815,478	\$	908,942	. \$.	932,863	\$_	23,921		
Expenditures										
General government	\$	727,387	\$	805,383	\$	821,393	\$	(16,010)		
Protection to persons and										
property		2,600		15,117		48,505		(33,388)		
General health and sanitation		58,528		61,479		63,082		(1,603)		
Social Services		83,963		111,049		84,279		26,770		
Recreation and culture		49,000		125,963		48,162		77,801		
Debt Services	-	203,800	-	208,400		212,068		(3,668)		
Total expenditures	\$_	1,125,278	. \$	1,327,391	. \$.	1,277,489	\$.	49,902		
Excess (deficiency) of revenues over expenditures before other										
financing sources (uses)	\$_	(309,800)	. \$	(418,449)	. \$.	(344,626)	\$ _	73,823		
Other financing sources (uses)										
Transfers from other funds	\$		\$		\$	215,719	\$	215,719		
Transfers to other funds	•	(69,000)		(41,914)	·	(164,170)		(122,256)		
Borrowed money		203,800		208,400		208,400		, , ,		
	_		-							

Cumberland County
Budgetary Comparision Schedules - Major Funds
Required Supplementary Information - Modified Cash Basis
For the Year Ended June 30, 2006
(Continued)

		General Fund (Continued)								
		Budgete	mounts		Actual Amounts (Budgetary		Variance With Final Budget Positive			
	_	Original	_	Final	_	Basis)	_	(Negative)		
Total other financing										
sources (uses)	\$_	134,800	\$_	166,486	\$.	259,949	\$_	93,463_		
Net change in fund balance	\$	(175,000)	\$	(251,963)	\$	(84,677)	\$	167,286		
Fund balance - Beginning	_	175,000	_	175,000		153,072	_	(21,928)		
Fund balance - Ending	\$_		\$_	(76,963)	\$	68,395	\$_	145,358		

Cumberland County
Budgetary Comparision Schedules - Major Funds
Required Supplementary Information - Modified Cash Basis
For the Year Ended June 30, 2006
(Continued)

		Road Fund									
	_	Budgete Original	amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)						
Revenues											
Intergovernmental	\$	1,154,637	\$	1,487,892	\$.,	\$	2,672			
Miscellaneous				2,244		2,252		8			
Interest	_	8,000		8,000		12,821	-	4,821			
Total revenues	\$_	1,162,637	. \$.	1,498,136	\$.	1,505,637	\$_	7,501			
Expenditures											
General government	\$	500,417	\$	500,417	\$	144,414	\$	356,003			
Transportation and facilities		6,200		6,200		5,875		325			
Roads		778,020		1,113,519		1,305,279		(191,760)			
Debt service		54,400		54,400		60,106		(5,706)			
Capital projects	_	73,600		73,600		2,437	_	71,163			
Total expenditures	\$_	1,412,637	. \$	1,748,136	\$.	1,518,111	\$_	230,025			
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$_	(250,000)	. \$.	(250,000)	\$.	(12,474)	\$_	237,526			
Other financing sources (uses) Transfers to other funds	\$_		. \$.		\$	(169,896)	\$_	(169,896)			
Total other financing sources (uses)	\$_		. \$.		.\$	(169,896)	\$_	(169,896)			
Net change in fund balance	\$	(250,000)	\$	(250,000)	\$	(182,370)	\$	67,630			
Fund balance - Beginning	_	250,000		250,000	-	249,695	-	(305)			
Fund balance - Ending	\$ =		\$		\$	67,325	\$ _	67,325			

Cumberland County
Budgetary Comparision Schedules - Major Funds
Required Supplementary Information - Modified Cash Basis
For the Year Ended June 30, 2006
(Continued)

	_	Grant Fund									
	_	Budgete Original	ed A	Amounts Final	Actual Amounts (Budgetary Basis)	Variance With Final Budget Positive (Negative)					
Revenues	_		_		_		_				
Intergovernmental Miscellaneous	\$ _	1,000,000		1,074,086	\$	958,929 8,395	\$ -	(115,157) <u>8,395</u>			
Total revenues	\$_	1,000,000	\$	1,074,086	\$.	967,324	\$_	(106,762)			
Expenditures											
General government Protection to persons and	\$	1,000,000	\$	1,000,000	\$	895,347	\$	104,653			
property						1,644		(1,644)			
General health and sanitation	-	<u> </u>		47,000		32,000	-	15,000			
Total expenditures	\$_	1,000,000	. \$	1,047,000	\$.	928,991	\$.	118,009			
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$_		\$	27,086	\$	38,333	\$_	11,247			
Other financing sources (uses)											
Transfers from other funds Transfers to other funds	\$ _		\$	(27,086)	\$	4,170 (45,823)	\$ -	4,170 (18,737)			
Total other financing											
sources (uses)	\$_		\$	(27,086)	\$.	(41,653)	\$_	(14,567)			
Net change in fund balance	\$		\$		\$	(3,320)	\$	(3,320)			
Fund balance - Beginning	_	·				3,460	_	3,460			
Fund balance - Ending	\$ =		\$		\$	140	\$_	140			

Cumberland County Notes to the Required Supplementary Information

June 30, 2006

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget, prepared by fund, function, and activity, is required to be adopted by the fiscal court by July 1.

The Fiscal Court may change the original budget by transferring appropriations at the activity level; however, the Fiscal Court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to the Statement of Revenues, Expenditures, and Changes in Fund Balances

General fund debt service expenditures and borrowed funds reported on the General Fund Budgetary Comparison Schedule do not agree to the amounts reported in the Statement of Revenues, Expenditures, and changes in Fund Balances – Governmental Funds – Modified Cash Basis because of short-term borrowing of \$208,400. The \$208,400 represents principal and was borrowed and repaid during the 2006 fiscal year and has a zero effect on the fund balance of the General Fund. The Governmental Accounting Standards Board does not permit the recognition of short-term revenue anticipation borrowing on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Modified Cash Basis.

OTHER SUPPLEMENTARY INFORMATION

Cumberland County Combining Balance Sheet - Non-major Governmental Funds Modififed Cash Basis Other Supplementary Information

June 30, 2006

Assets		Sp Jail Fund		Local Government Economic Assistance Fund	Fire Protection Fund		Capital Project Fund Public Properties Corporation Justice Center Construction Fund		Total Non-major Funds	
Cash and cash equivalents	\$	17,922	\$_	13,566	. \$ _	13,078	\$	488	. \$ _	45,054
Total assets	\$	17,922	\$ =	13,566	. \$ _	13,078	\$	488	. \$ _	45,054
Fund balances Reserved for:	•		_		_		_			
Encumbrances Unreserved:	\$	455	\$	530	\$		\$		\$	985
Special revenue fund Capital project fund		17,467	_	13,036		13,078		488	. <u>-</u>	43,581 488
Total fund balances	\$	17,922	<u>\$</u> _	13,566	\$_	13,078	\$	488	\$_	45,054

The accompanying notes are an integral part of the financial statements.

Cumberland County

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Non-major Governmental Funds - Modified Cash Basis Other Supplementary Information

For The Year Ended June 30, 2006

		Spo	ecia	ıl Revenue <u>Fun</u>	ıds		_	Capital Project Fund		
		Jail Fund	_	Local Government Economic Assistance Fund	_	Fire Protection Fund		Public Properties Corporation Justice Center Construction Fund	_	Total Non- major Funds
Revenues	_		_		_					
Taxes	\$		\$	04 ==0	\$	3,278	\$	400.004	\$	3,278
Intergovernmental		74,801		31,556		242		133,654		240,011
Interest		427	-	429	-	343		1,891	_	3,090
Total revenues	\$	75,228	\$_	31,985	. \$	3,621	\$	135,545	\$_	246,379
Expenditures										
General government	\$	15,466	\$	14,690	\$		\$	371,168	\$	401,324
Protection to persons and property		211,865	_	22,778		2,638			_	237,281
Total expenditures	\$	227,331	\$_	37,468	. \$	2,638_	\$	371,168	\$_	638,605
Excess (deficiency) of revenues over expenditures before other financing sources (uses)	\$	(152,103)	e	(5,483)	e	983	\$	(235,623)	¢	(392,226)
sources (uses)	Ψ	(132,103)	Ψ –	(5,465)	. Ф		Ψ	(233,023)	" –	(392,220)
Other financing sources (uses)										
Transfers from other funds	\$	160,000	\$_		. \$		\$	_	\$_	160,000
Total other financing sources (uses)	\$	160,000	\$_		. \$		\$		\$_	160,000
Net change in fund balances	\$	7,897	\$	(5,483)	\$	983	\$	(235,623)	\$	(232,226)
Fund balances - Beginning		10,025	_	19,049		12,095	,	236,111	_	277,280
Fund balances - Ending	\$	17,922	\$_	13,566	\$	13,078	\$	488	\$_	45,054

The accompanying notes are an integral part of the financial statements.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Cumberland County Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

A. Summary of Audit Results

- 1. The auditor's report expresses an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information of Cumberland County Fiscal Court. The auditor's report also expresses a qualified opinion on the discretely presented component unit.
- No control deficiencies are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statement Performed in Accordance with <u>Government Auditing</u> Standards.
- 3. No instances of noncompliance material to the financial statements of Cumberland County Fiscal Court. were disclosed during the audit.
- 4. No reportable conditions relating to the audit of the major federal award program are reported in the Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
- 5. The auditor's report on compliance for the major federal award programs for Cumberland County Fiscal Court expresses an unqualified opinion on the major federal program.
- 6. There are no audit findings required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- 7. The program tested as a major program was the Community Development Block Grant.
- 8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- 9. Cumberland County Fiscal Court was determined not to be a low-risk auditee.

B. Findings – Financial Statement Audit

State Laws and Regulations

None.

Reportable Conditions

None.

C. Findings and Questioned Costs - Major Federal Awards Program Audit

None.

D. Prior Year Findings

Not applicable.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Cumberland County Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2006

Federal Grantor/Pass Through Grantor/Program Title	Federal CFDA Number	Agency or Pass-through Number		Federal Expenditures	
U.S. Department of Homeland Security Passed through State Department of Military Affairs					
Division of Emergency Management Governor's Office of Homeland Security	97.004 97.004	Not available I-05433379	\$	1,644 2,500	
Emergancy Management Performance Passed through Division of Emergency	97.042	I-06139930		274	
Management Public Assistance Office FEMA - Disaster Grant	97.036	Fema 1537-dr-l	ky _	95,540	
Subtotal U.S. Department of Homeland Security			\$ _	99,958	
U.S. Department of Housing and Urban Development Passed through Kentucky Governor's Office for Local Government Sub recipient of Community Development Block Grant (CDBG) Cumberland County/Burkesville Senior					
Citizens Center	14.228	04-044	\$.	882,431	
Subtotal U.S. Department of Housing and Urban Development			\$.	882,431	
National Oceanic and Atmospheric Administration					
Passed through NOAA PRIDE	11.469	Not available	\$ _	48,300	
Subtotal National Oceanic and Atmospheric Administration			\$	48,300	
Total Federal Awards			\$	1,030,689	

See Accompanying Notes To Schedule of Expenditures of Federal Awards

Cumberland County Note to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2006

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Cumberland County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133: <u>Audits of States</u>, <u>Local Governments</u>, and Non-Profit Organizations.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

JONES



CERTIFIED PUBLIC ACCOUNTANTS

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 ☐ (859) 269-1949

Honorable Tim Hicks, County Judge/Executive Members of the Cumberland County Fiscal Court

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements

Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Cumberland County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents, and have issued our report thereon dated April 29, 2008, wherein we issued a qualified opinion on the discretely presented component unit. Cumberland County prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We did not audit the financial statements of the Cumberland County Hospital Association, Inc., a discretely presented component unit. Those financial statements were audited by other auditors whose report has been furnished to us. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Cumberland County's internal control over financial reporting to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cumberland County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results

of our tests disclosed no instances of noncompliance or other matters that are required to be reported under <u>Government Auditing Standards</u>.

Honorable Tim Hicks, County Judge/Executive
Members of the Cumberland County Fiscal Court
Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of the Financial Statements
Performed in Accordance with Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

Jones & Ritchie, PSC

Jones & Ritchie, PSC Certified Public Accountants

April 29, 2008

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

JONES



CERTIFIED PUBLIC ACCOUNTANTS

2024 SHADYBROOK LANE, LEXINGTON, KY 40502 ☐ (859) 269-1949

Honorable Tim Hicks, County Judge/Executive Members of the Cumberland County Fiscal Court

Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133

Compliance

We have audited the compliance of Cumberland County, Kentucky with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) <u>Circular A-133 Compliance Supplement</u> that are applicable to its major federal program for the year ended June 30, 2006. Cumberland County's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Cumberland County's management. Our responsibility is to express an opinion on Cumberland County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in <u>Government Auditing Standards</u>, issued by the Comptroller General of the United States; and OMB Circular A-133, <u>Audits of States</u>, <u>Local Governments</u>, <u>and Non-Profit Organizations</u>. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Cumberland County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Cumberland County's compliance with those requirements.

In our opinion, Cumberland County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Honorable Tim Hicks, County Judge/Executive
Members of the Cumberland County Fiscal Court
Report on Compliance with Requirements Applicable to Each Major Program
and on Internal Control over Compliance in Accordance with OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Cumberland County is responsible for establishing and maintaining effective internal control over compliance with the requirements of the laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Cumberland County's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Jones & Ritchie, PSC

Jones & Ritchie, PSC

April 29, 2008

APPENDIX A

Certificate of Compliance Local Government Economic Assistance Program Cumberland County, Kentucky

For The Year Ended June 30, 2006

The Cumberland County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

County Judge/Executive

County Treasurer